Police-Fire Pension Fund Citizens' Task Force

Executive Summary

Responses to Task Force Charge

The Police-Fire Pension Fund Citizens' Task Force was formed on April 27, 2009. Since that time, the Task Force members have met diligently and invested hundreds of hours studying this issue. The Task Force's charge, outlined in an ordinance adopted by City Council on April 6, 2009, consists of four main parts.

This document consists of two main parts. The first part addresses each of the four parts of the charge. The second part provides some key observations and additional commentary.

Part 1 – Addressing the Task Force's Charge

Research and investigate the police-fire pension funding issue to determine the scope of the problem and the level of urgency to resolve the problem.

- The Task Force agrees that the underfunded Police-Fire Pension Fund is, by far, the biggest challenge facing the City of Springfield at this time.
- A majority of the Task Force agrees that the fiscal impact of increased City contributions from its General Fund into the Police-Fire Pension Fund negatively impacts the quality of life for the community and reduces the ability to maintain infrastructure and provide an adequate level of service to the citizens of Springfield. One member disagreed and felt the current level of budget cuts and service reductions should continue into the future 20 or more years.
- The Task Force acknowledges that there is a direct linkage between the underfunded Pension Fund, the increasing contribution to the Pension Fund by the City's General Fund (resulting in significant budget cuts in all areas of City services), and the City's future economic development potential. Failing

to solve the underfunding of the plan will negatively impact Springfield's current and future economies.

- The Task Force agrees that the underfunded Pension Fund is negatively impacting the City's ability to recruit and retain police and fire personnel, as well as other City staff.
- The Task Force acknowledges that this is an extremely complex issue that requires many research hours to fully comprehend. The inherent complexity of this issue is likely a driving factor in the creation of this Task Force, since it is not feasible for every Springfield resident to research this issue to the depth that we did. The Task Force never lost sight of the fact that we are representing the citizens of Springfield and are responsible for performing indepth research and asking the tough questions on their behalf. We believe we accomplished this.
- Regarding the level of urgency, a majority of the Task Force agrees that the underfunding of the Police-Fire Pension Fund must be fulfilled within the next 5-10 years (requiring one or two successful voter referendums, given the five-year limit on this type of sales tax). A minority of the Task Force feel the resolution can be addressed over 20+ years (requiring four or more successful voter referendums).

Consider and analyze a variety of potential methods to provide a multiyear plan that restores and maintains the fiscal responsibility of the plan and ensures our ability to recruit and retain a well-trained, stable employee base for the delivery of high-quality public safety services to our community.

- The Task Force considered and analyzed a variety of potential methods to address this challenge. Some of the methods studied and conclusions include the following:
 - Retirement Plan for New Hires
 - The Task Force recommends two alternates for City Council's consideration. Details to follow.

- Pension Obligation Bonds
 - The Task Force does not recommend pursuing Pension Obligation Bonds due to the higher level of risk associated with this strategy.
- Restructuring of the Pension Board
 - The Task Force recommends City Council consider restructuring the Pension Board – two alternatives are presented below.
- Pension Board Fiduciary Duties
 - No changes were recommended.
- A variety of funding mechanisms were studied and considered:
 - o Pending telecommunication lawsuit settlement funds
 - The Task Force recommends to City Council now and in the future, all telecom net lump-sum settlement proceeds be placed in the Pension Fund above and beyond the recommended 35% City contribution.
 - Renewal of the ¼-cent Capital Improvement Program (CIP) Tax
 - The Task Force recommends the CIP funding continue as is and not be used to fund the Pension system.
 - Bankruptcy
 - The Task Force recommends the City not file for bankruptcy as a solution to the underfunding.
 - Annuities
 - The Task Force feels that returns are insufficient to solve the problem. In the current market, returns on investment are substantially less than the 7.5% target returns for the fund.
 - o Implementation of the available 1.5 mill property tax
 - This source of funding is insufficient in that approximately \$3 million is far short of the \$13 million required.
 - Sale of City Utilities
 - The Task Force does not recommend selling City Utilities.

- Sale of City Property
 - The Task Force recommends the City sell any unused property, when possible and practical, and invest the net General Fund proceeds into the Pension Fund.
- Disability Insurance
 - The Task Force recommends the disability provision continue to be self-insured by the Pension Fund.
- Additional service credit for continued employment (up to 5 years) by Police and Fire employees once maximum benefit has been earned in an attempt to encourage longer employment tenures.

This proposal is deferred pending a decision ruling by the Attorney General's office regarding the issue definition of an "additional benefit increase".

Meet with all stakeholders to collect input and hear various perspectives, including but not limited to, the Pension Board and related advisors/consultants, Police Department leadership, SPOA representatives, Fire Department leadership, IAFF representatives, police/fire retirees, City leadership, the Citizens Keeping Our Commitment committee, critics of the previous proposal, and any other group with whom the Committee desires to meet. The Task Force may consider any option.

- The Task Force met with, and received presentations from, a wide variety of stakeholder representatives, including the following:
 - Police and Fire Pension Board Trustees 4/29/09
 - David Hall Orientation for new Pension Board members and background on operation of Pension Board
 - Citizens Keeping Our Commitment committee 5/6/09
 - Morey Mechlin Advocating for the 1-cent sales tax
 - Fire Department 5/6/09
 - Chief Barry Rowell Recruitment, retention, and salaries
 - o Police Department 5/6/09
 - Chief Lynn Rowe Recruitment and employee turnover
 - SPOA / IAFF Unions 5/6/09
 - Mr. Dan Tobben, attorney for SPOA / IAFF

- Mike Evans, President, Springfield Police Officers Association (SPOA)
- Shaun Martin, Vice-President, International Association of Fire Fighters (IAFF) Local 152
- Milliman 5/13/09
 - Michael Zwiener Actuary consultant for the Pension Board
- Segal Investment Advisors 5/13/09
 - Gino Reina Investment portfolio consultant for the Pension Board
- Show-Me Institute 5/20/09
 - Joe Haslag Non-profit Missouri think tank organization
- City of Springfield 5/20/09
 - Greg Burris City of Springfield's Proposed Fiscal Year 2010 Budget Overview
- Chamber of Commerce 5/21/09
 - Chairman Andy Lear and President Jim Anderson "Neutral" position on the previous 1-cent sales tax proposal
- City of Springfield 5/27/09
 - Mary Mannix Decker, Director of Finance Sales tax rate comparisons
- City Utilities 5/27/09
 - Chairman Mark McNay and General Manager John Twitty Potential sale of City Utilities
- LAGERS 6/3/09
 - Keith Hughes LAGERS retirement plan for City employees
- Additionally, the Task Force developed a list of seventy-four "burning issues" questions and provided them to City staff for responses. The Task Force would like to thank the City staff for working diligently to provide responses to all questions in a timely manner.

Provide written recommendations to the Mayor and City Manager, ranking the one or more recommended options that should be considered, recognizing that City Council must ultimately approve any proposal. In addition to ranking the Task Force's recommendations, the report should indicate the advantages and disadvantages of each option considered from the perspective of the citizen, the City as employer, the employee, and the pension system.

- The Task Force unanimously agrees that a sales tax is necessary to address
 the underfunded Pension Fund. Funding of the plan cannot be accomplished
 via the City's General Fund budget without devastating results to Springfield's
 quality of life in the near future.
- The Task Force is providing two options for City Council's consideration within a variety of components.

Pension Board Restructuring –

Approved by Task Force on 6/24/09 (13 Yes / 0 No)

- O Alternate #1:
 - 11-member Pension Board, consisting of 3 citizens, 1 City Council member, 1 City Human Resources Department representative, and 1 City Finance Department representative, 2 active Police employee representatives, 2 active Fire employee representatives, and 1 Police or Fire retiree representative
 - Chair elected by Pension Board and to serve 1-year term
- o Alternate #2:
 - 7-member Pension Board, consisting of 5 citizens, 1 active
 Fire employee, 1 active Police employee
 - Citizen members will be appointed by the City Manager and approved by City Council
 - Pension Board will hire their own independent legal counsel
 - At least one City staff member should serve as a non-voting liaison between the Pension Board and the City Manager
 - Pension Board should have the authority to hire a director to handle the daily duties of the pension fund

Retirement Plan for New Employees

Approved by Task Force on 6/24/09 (12 Yes / 1 No)

- Alternate #1:
 - New employees will be incorporated into the LAGERS system as previously studied by the City, and Tier 2 employees may voluntarily transition into the LAGERS system which includes an LTD component.

Alternate #2:

 New employees will be enrolled in Social Security or some other Defined Benefit Plan (if Social Security is not available) and have a Defined Contribution Plan to provide for additional retirement income

• Defined Benefit Plan vs. Defined Contribution Plan

Approved by Task Force on 6/30/09 (11 Yes / 1 No)

 The Task Force approved not recommending a Defined Contribution Plan as an option (See Exhibit A)

Propose a Sales Tax

Approved by Task Force on 7/7/09 (9 Yes / 4 No)

Alternate #1:

- 5/8-cent sales tax, assume a 7.5% rate of return on fund investments, and a City contribution of 35% of Police-Fire payroll. This proposal would generate approximately \$24 million a year.
- The Task Force acknowledges that a sales tax at this rate may require two 5-year periods (original passage and one renewal)

o Alternate #2:

- 3/4-cent sales tax, assume a 7.5% rate of return on fund investments, and a City contribution of 35% of Police-Fire payroll. This proposal would generate approximately \$28 million a year.
- The Task Force acknowledges that a sales tax at this rate may require two 5-year periods (original passage and one renewal)

Employee Contribution

Approved by Task Force on 8/4/09 (8 Yes / 5 No / 1 Abstain)

Alternate #1

 Recommend City increase the Employee contributions between ³/₄% and 2%. The Task Force recommends that we reconvene periodically during 2009, once the City has received the actuary's updated report that will take into account the Pension Fund's current level of funding and the change in actuarial assumptions (experience study) that occurs every five years. In addition, the Task Force should follow through on the prospective proposal to move Tier 1 employees into LAGERS.

The Task Force encourages City Council to place the Sales Tax Proposal on the November 2009 ballot and some members are willing to help educate the community on this issue.

Part 2 – Observations and Additional Commentary

- At our first meeting, the Task Force divided into three teams to represent and address this problem from the perspective of the three key stakeholders tax payers, Police and Fire employees, and the City. Sometimes we met as the full Task Force; other times we broke out into our teams to study issues. This process seemed to work well and gave each Task Force member multiple opportunities to float ideas for consideration and be heard. No Task Force member was censored or denied an opportunity to suggest ideas to the group. All members were given opportunities to submit questions for the full group's consideration. Within the full Task Force meetings and within the individual teams, we had spirited debates and conversations.
- The Task Force acknowledges that no external entity or individual influenced our work or recommendations. Each member of the Task Force was asked to enter the process with an open mind and consider all options. We believe we did that.
- The Task Force acknowledges that it received no pressure from City Council or City staff to rush our work or to meet any target deadline.
- The Task Force believes that, if City Council approves some combination of our recommendations, we (the Task Force members) have an obligation to become the "face of the proposal" and make multiple presentations to groups throughout

the community. We feel education of the community is the key to getting this problem resolved.

- The Task Force wishes to thank the City staff for their clerical, legal, and
 research support throughout the process. All of the Chair's requests for
 information were answered in a timely manner. At our request, the City even
 paid for two custom reports from the actuary to provide 32 alternate sales tax
 scenarios and an analysis of optionally migrating Tier I employees to LAGERS,
 both of which proved very helpful.
- The Task Force would also like to thank the City for its emphasis on transparency throughout the process. The City posted all full Task Force meetings on the web for public viewing, posted to their web site all handouts and other materials provided to the Task Force, and made available audio recordings of most meetings. This emphasis on making the process open to the public is greatly appreciated by the Task Force.

Jerry Fenstermaker Task Force Chairman Jerry Harmison
Task Force Vice-Chairman